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WORLD DEBTS AND PAPER CURRENCY CONTINUE TO INCREASE*

By O. P. AUSTIN

Statistician, The National City Bank of New York

THE SECOND ANNIVERSARY of the Armistice finds the world's national debts and paper currency still rapidly expanding. It was hoped—expected, in fact—that the great expansion of national debts and paper currency which characterized the war period would terminate with its close, or at least during the year immediately following its cessation; but it now appears that the increases in both debts and paper currency have been as great in the second year after the Armistice as in the year which immediately followed it. World national debts, which had grown from \$43,000,000,000 at the beginning of the war to \$212,000,000,000 at its close, on November 11, 1918, advanced to about \$256,000,000,000 at the end of the first year of peace, and are now, at the end of the second year, approximately \$300,000,000,000, and the annual interest charges have advanced from \$1,750,000,000 in 1913 to \$12,000,000,000 in 1920. World paper currency shows a similar gain both during and since the war, having advanced from \$7,500,000,000 at the beginning of the war to \$43,000,000,000 at its close, \$55,000,000,000 one year after its termination and approximately \$80,000,000,000 at the end of the second year. National debts, which increased \$170,000,000,000 during the war, added \$45,000,000,000 in the first year of peace and another \$40,000,000,000 in the second year just ending. World paper currency, which increased \$36,000,000,000 during the war, shows a further gain of about \$12,000,000,000 the first peace year and over \$25,000,000,000 in the second year, just ended.

With the enormous increase in paper currency and the marked fall off in gold production, the ratio of gold to notes has fallen from 66 per cent to less than 10 per cent. World paper currency is now eleven times as much as at the beginning of the war, and with gold production running at only three-fourths as much as at the beginning of the war and the world demanding increased quantities of the yellow metal for the arts and industries, the available supply as a backing, or "reserve," bears a constantly diminishing ratio to the note circulation. An aggregation of the figures of gold and paper existing in the fifty principal countries for which figures are available shows that the ratio of gold to notes stood in the grand total at 66.8 per cent in 1914, 17.9 per cent in 1918, 13.7 per cent in 1919, and 9.3 per cent in 1920. In many countries the ratio of gold to notes is far below the general average above noted. In the case of Germany the ration of gold to notes is about 6/10 of 1 per cent; the notes of the Austro-Hungarian Bank 4/10 of 1 per cent, and those of the Bank of Poland much lower.

Details of national debts and paper currency in the principal countries of the world, at the beginning and termination of the war and at the close of the first year after the Armistice, were presented in the January and

June, 1920, issues of *The Americas*. The purpose of this study is to supplement those statements by presenting the very latest available figures of national indebtedness and paper currency of all countries for which data are available, comparing conditions at the first and second anniversaries of the Armistice with those existing at the termination of hostilities and at the beginning of the war. While absolutely exact figures for November 11th, the date of the Armistice, cannot be given by reason of the fact that debt and currency figures of most countries are only shown at monthly or yearly intervals, the official figures now available sufficiently approximate the dates of the beginning and termination of the war to render possible a close approximation of the world totals of debt and currency at the beginning and end of the war and on the first and second anniversaries of its close.

While this study of present conditions as to the national debts and paper currency shows the increase in the second peace year quite as great as that of the year immediately following the Armistice, a closer study of these increases, one by one, indicates that they occur chiefly in Europe and especially in the newly created States or those countries in which boundaries were radically changed and peace terms not fully settled. Poland's national debts, which amounted to about 7,000,000,000 Polish marks at the beginning of 1920, were 40,000,000,000 marks at the middle of September, 1920, exclusive of a foreign debt of about \$600,000,000, and the note circulation of the Polish National Bank, backed by an extremely small gold reserve, has advanced from 5,000,000,000 marks at the beginning of 1920 to 32,000,000,000 at the middle of September. Czecho-Slovakia's debt, for which no figures were available a year ago, was shown by an official memorandum, submitted to the Brussels Financial Conference in October, at 35,000,000,000 kronen, and is stated by the Prague journals at a much larger sum, this large total including Czecho-Slovakia's share of the former Austro-Hungarian debt, though in the case of Poland the statements of national debt do not include any pre-war indebtedness. In the case of Rumania, whose territory was greatly increased as a result of the war, the 1920 figures of circulation are four times as great as those available immediately following the close of the war, while the 1920 statements of her national indebtedness are ten times those of 1918, this increase in both currency and debt being due in part to the great additions to her area and population and in part to the impossibility of obtaining at the close of the war any complete figures for the area in question, and this makes the apparent increase of the year 1920 slightly greater than it would be could their 1919 figures be accurately stated.

In many others of the new States increases of debt or currency which were not available one year ago are now appearing in official form and are, of course, included in the grand total for the year 1920, even though no figures were available in 1919.

Austro-Hungarian Bank a Glaring Example

Circulation figures of the Austro-Hungarian Bank, which still continues to supply currency to most of the area formerly included within the Austro-Hungarian

* From November *The Americas*.

Empire, stood at the latest date in 1920 at 70,000,000,-000 kronen, against approximately 50,000,000,000 one year ago and 35,000,000,000 at the close of the war, having thus practically doubled in the two years following the war, though no additions have been made to the extremely small gold reserve since the termination of the war. Esthonia, whose paper issues in October, 1919, were 344,000,000 Esthonian marks, showed a total of 1,309,000,000 in August, 1920. Germany, however, is responsible for the largest 1920 increase in both currency and debt, the outstanding note circulation of the Imperial Bank of Germany having increased from 30,-000,000,000 marks on October 7, 1919, to 62,000,000,-000 on October 7, 1920, while there was also an increase of about 3,000,000,000 marks in the Darlehenskassenscheine notes in circulation. The total of the German national debt also rapidly increased from about 170,-000,000,000 marks at the close of the war to 200,000,-000,000 one year ago and 240,000,000,000 in October, 1920. A statement regarding the debt of France, presented at the recent Financial Conference at Brussels, showed a debt increase of 16,000,000,000 francs in the first seven months of 1920. A statement presented on behalf of the Italian Government showed a debt increase of about 10,000,000,000 lire in the first half of 1920. In others of the European nations there have been also material increases in currency and debts during the year, though in a far less proportion than in those areas where new conditions, prostrated industries, and reduced tax-paying power have constantly demanded large currency increases to meet deficits in governmental operations.

Outside of Europe the year 1920 showed comparatively little change, either in currency circulation or national debts—a slight increase in both, but trifling as compared with that of Europe, and especially interior Europe. In the United States there has been in 1920 an increase in circulation, but a slight reduction in national debt.

Budget Estimates Seldom Met

These tremendous increases in world national debts and paper currency which have characterized the second year following the Armistice have been, as above indicated, largely the result of creation of "deficits" in the operations of the respective governments. Reports submitted at the Brussels Financial Conference held in October showed that a very large proportion of the nations of the world are persisting in the creation, from year to year, of a deficit in their budget accounts which can only be met by an increase of indebtedness or an increase of paper currency, or both. The *London Times*, in a review of the facts presented at the Brussels Conference, says: "The startling fact was revealed that three out of four among the nations represented at the conference will have a budget deficit this year, which means that three-fourths of the civilized world is not paying its way." The position in Europe "is much more serious, for 11 out of 12 European nations are this year spending more than they are receiving in revenue, the only exception being Great Britain. This accounts for the diminishing effective purchasing power of the continent, which is still printing money for the

purpose of spending more than it has actually got."

This comment is in line with that of other publications. A study of economic press reports of Europe illustrates the almost universality of the "deficit habit." The memorandum submitted to the Brussels Financial Conference by the German delegates says that the budget estimates for 1920 show a deficit of 37,661,000,000 marks, which must be covered by loans, and the railways are expected to show a further deficit of 16,000,-000,000 marks. Vienna correspondence of the *Frankfurter Zeitung* states that "the deficit in the national budget and in those of other public bodies, especially the municipality of Vienna, continually grows larger." The representatives of Czecho-Slovakia attending the conference showed that the first year of the republic's existence there was a deficit of 5,000,000,000 kronen, and in the second year 2,500,000,000. The *Basler Nachrichten* states that the Swiss budget, which balanced in 1913, showed a deficit of 400,000,000 francs in 1919, and that the deficits of the 25 Swiss cantons amounted to 80,000,000 francs. The same authority, discussing conditions in Poland, says that the "Polish budget does not nearly balance, even if the various loans raised at home and abroad are added in, and it has been found necessary to issue vast quantities of bank notes." Professor Cassel, in the *Svenska Dagbladet*, of September 8, says of Germany, that "so long as a deficit of about 4,000,000,000 marks per month exists, which must be covered by the artificial creation of a purchasing power, the hope of financial stability is out of the question. The Hungarian budget shows a deficit of about 10,000,000,000 kronen, and the government is about to create a forced loan to meet the deficit." The Austrian Secretary of State for Finances stated at the Brussels Conference that the Austrian deficit in the present year would be more than 12,000,-000,000 kronen. Recently published figures show also a large deficit in Italian receipt and expense accounts. A writer in the *London Economist*, who attended the Brussels Conference, says that "in Europe, at least, hardly any country (1 in 12) can make its budget balance, and every country, through ill advice or through despair, has broken all or some of the vital rules of sound economic life, and there is no escape from a conclusion that budget deficits result in further inflation, in further collapse of the exchanges, in further increase in the cost of living, and, in the end, in general ruin."

Brussels Conference a Unit on Deficits

This custom of the continued creation of deficits in national budgets, which has been so widely and persistently developed since the war, was the subject of a special discussion and criticism by the Committee on Currency and Exchange at the recent Financial Conference at Brussels, representing the League of Nations. Its report, which was unanimously adopted by the representatives of the thirty-nine nations participating in the conference, says that the chief cause in most countries of the post-war growth of currency and national indebtedness "lies in the fact that governments, finding themselves unable to meet their expenditures out of their revenue, have been tempted to resort

to the artificial creation of fresh purchasing power, either by the direct issue of additional legal tender money or more frequently by obtaining, especially from the banks of issue (which are in some cases unable, and others unwilling, to refuse) credits, which must themselves be satisfied in legal-tender money. . . . The floating debts of government and other authorities constitute in themselves a form of potential currency, in that, excepting so far as they are constantly renewed, their amount will come to swell the total currency in existence. . . . The currency of a country," it adds, "includes the actual legal-tender money in existence and any promises to pay legal tender. The currencies of all the belligerent and many other countries, though in greatly varying degrees, have since the beginning of the war been expanded artificially, regardless of the usual restraint upon such expansion, and without any corresponding increase in the real wealth upon which their purchasing power was based; indeed, in most cases, in spite of a serious reduction in such wealth and this artificial and unrestrained expansion cannot add to the real purchasing power in existence, so that its effect must be to reduce the purchasing power of each unit of the currency. . . . Where this additional currency was procured by further inflation, either the printing of more paper money or creating fresh credit, there arose what has been called a 'vicious spiral' of constantly rising prices and wages and constantly increasing inflation, with the resulting disorganization of all business, dislocation of the exchanges, a progressive increase in the cost of living, and consequent labor unrest." The report closes its discussion of this post-war development of continued inflation as a result of budget deficits by saying: "It is of the utmost importance that the growth of inflation should be stopped; . . . governments must limit their expenditure to their revenues; banks, and especially banks of issue, should be freed from political pressure and conducted solely on the lines of prudent finance. . . . The creation of additional credit should cease, and governments should not only not increase their floating debts, but should begin to repay or refund them by degrees. . . . We consider it most important that the world should have some common standard of currency, and as gold is today the nominal standard of the civilized world, it is highly desirable that the countries which had lapsed from an effective gold standard should, as soon as possible, return thereto."

Economic Principles Widely Ignored

The startling fact shown by latest tabulations, both as to debt and currency, is the tremendous increase which has occurred in the second year following the close of the war, much of this being due to a willingness of the respective governments to permit their annual expenditures to exceed their receipts from the already heavy taxation, trusting to enlargement of the national debt or its equivalent, the national paper currency, to tide over the adverse conditions until expenditures, still based upon war prices of material and labor, can be brought within the limits of taxation. In a few instances, however, notably Poland and Lithuania, the increase in currency and national debts was the necessary

result of military operations, while the grand totals of 1920 are also somewhat increased by the inclusion of figures for certain States, especially those of interior Europe, for which data was not then available in 1919.

World National Debts and Paper Currency, 1914 to 1920, as Nearly as Can be Stated,* Reduced to United States Currency at Par (Pre-war) Value of the Respective Currencies

	National debts.	Paper currency.†
1914	\$43,889,000,000	\$7,527,000,000
1915	46,900,000,000	8,562,000,000
1916	56,902,000,000	19,608,000,000
1917	120,485,000,000	32,747,000,000
1918	211,500,000,000	43,091,000,000
1919	256,020,000,000	54,782,000,000
1920	297,604,000,000	81,596,000,000

World National Debts, by Grand Divisions, 1913 to 1920 (in Millions of Dollars)

	Europe.	North America.	South America.	Asia.	Oceanica.	Africa.
1913 ..	32,159	2,243	1,885	3,799	1,879	1,152
1918 ..	181,363	19,150	2,480	4,001	3,563	1,381
1919 ..	212,150	28,725	2,529	4,742	4,364	1,377
1920 ..	257,430	27,303	2,401	5,264	4,750	1,406

World Paper Currency, by Grand Divisions, 1914 to 1920† (in Millions of Dollars)

	Europe.	North America.	South America.	Asia.	Oceanica.	Africa.
1914 ...	5,058	1,223	701	420	95	24
1918 ...	35,255	4,309	1,324	839	335	230
1919 ...	46,007	4,615	1,358	1,326	376	341
1920 ...	72,142	5,135	2,157	1,241	346	260

The Savings Bank Association of the State of New York, under date of January 9, says:

In 1914 the total estimated wealth of the principal countries involved later in the war was \$698,000,000,000. The total aggregate wealth of these same countries today is approximately \$819,000,000,000, an increase of \$121,000,000,000. At the beginning of the World War the bulk of the world's wealth—\$509,000,000,000—belonged to the Entente and the United States. The Central Powers held \$129,000,000,000 and Russia \$60,000,000,000.

Today the estimated wealth of the United States is \$300,000,000,000, a gain of \$50,000,000,000 since 1914. The estimated wealth of Great Britain now is approximately \$230,000,000,000, as against \$130,000,000,000 when the war started. This big gain is due to the wealth produced by the Mesopotamian oil fields, African territory taken from Germany, and elimination of Germany as a trade competitor.

The addition of Alsace-Lorraine, reduction of German competition, and the German indemnity have added approximately \$35,000,000,000 to the wealth of France, which is now estimated at \$100,000,000,000, as against \$65,000,000,000 in 1914. Italy and Belgium have added about one-third to their national wealth, while Japan has gained about 50 per cent.

Germany, of course, was the heaviest loser in aggregate wealth. By the loss of territory, investments, merchant marine, foreign trade, together with a reduction of man power, her pre-war wealth of \$85,000,000,000 has, according to one authority, probably been reduced to about \$20,000,000,000. Austria-Hungary also lost heavily. Her present condition is such that it is doubtful if she is worth \$1,000,000,000, although before the war she was worth \$40,000,000,000. Turkey and Bulgaria have been reduced from about \$4,000,000,000 to \$1,000,000,000 or less.

* Exact statements of total world debts or currency for any fixed date are obviously impracticable, by reason of the fact that in many of the minor and recently organized countries official statements are issued at irregular intervals and not infrequently delayed in their presentation.

† Exclusive of issues of Soviet Government estimated at \$34,000,000,000 at end of 1919.